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check for possible pension fund figures Feb 1/75

TEXACO CANADA LIMITED

1974
ANNUAL REPORT

TEXACO

OFFICERS

D. FRASER BENTLEY,
Chairman of the Board

JOHN I. MINGAY,
President and Chief Executive Officer

O. C. CLEYN,
Vice-President, Eastern Canada

H. T. HUDSON,
Vice-President and Treasurer

J. E. KING,
Vice-President, Public Affairs

J. G. LIGHT,
Vice-President, Refining

J. L. MORRISON,
Vice-President and Assistant to the President

R. W. SPARKS,
Vice-President, Western Canada

J. C. WATTIE,
Vice-President and General Manager, Sales

E. J. LITTLE,
Secretary

D. L. WEST,
Comptroller

COVER: Texaco Canada mobile refueler services airliner at busy Calgary International Airport prior to dusk takeoff. The company also markets jet fuel at Montreal, Toronto and Vancouver International airports.

LEFT: Rig drills wildcat well for Texaco at Valhalla, northern Alberta.

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Texaco Canada Limited
90 Wynford Drive
Don Mills, Ont. M3C 1K5

Transfer Agents in Canada:

Montreal Trust Company
Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver

Registrars in Canada:

The Royal Trust Company,
Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver

Transfer Agents and Registrars in the United States:

The Royal Bank of Canada
Trust Company,
68 William Street, New York, N.Y.

The use in this report of such terms as *Texaco Canada, Company, organization, we, us, our and its,* when referring to Texaco Canada Limited or to its subsidiaries and affiliates either individually or collectively, is only for convenience and is not intended to be an accurate description of corporate relationships.

On peut obtenir un exemplaire français du présent rapport annuel en s'adressant au secrétaire de la compagnie,
90 Wynford Drive,
Don Mills, Ont. M3C 1K5

HIGHLIGHTS

Financial	1974	1973
Gross income	$761,820,000	$567,431,000
Net income	$ 55,049,000	$ 55,367,000
Number of common shares outstanding	9,715,359	9,715,359
Net income per common share	$5.65	$5.68
Cash dividends paid on common stock	$ 13,990,000	$ 12,241,000
Cash dividends per common share	$1.44	$1.26
Shareholders' equity (end of year)	$350,544,000	$309,635,000
Total assets (end of year)	$711,693,000	$500,290,000
Working capital (end of year)	$189,066,000	$ 81,191,000
Property, plant and equipment expenditures	$ 53,754,000	$ 30,961,000

Operating (Barrels daily)		
Gross production of crude oil and natural gas liquids	38,889	41,324
Refinery runs	151,794	149,947
Petroleum product sales	185,692	193,347

"How to get along with your car," a company-produced book offering suggestions for safe, economical and trouble-free driving, was sold through Texaco stations and proved popular with Canadian motorists.

TO THE SHAREHOLDERS

In 1974 the net income of Texaco Canada Limited remained at approximately the same level as in the previous year, in spite of very heavy additional taxes.

Net earnings were $55,049,000, equal to $5.65 a common share. This amount reflects an additional provision of $6,652,000 for the estimated increase in federal and provincial income taxes retroactive to May 6, 1974, arising from the federal budget proposal of November 18, 1974, as modified by subsequent tax proposals of certain provinces. Net income in 1973 was $55,367,000, equal to $5.68 a share.

The company's gross revenues in 1974 totalled $761,820,000 compared with $567,431,000 in the previous year. The rise in gross revenue resulted from higher product prices which in turn largely reflected increased costs of crude oil.

One of the most significant undertakings by the company in 1974, and indeed in its history, was the commitment for the construction of the new 95,000 barrels a day refinery at Nanticoke, Ontario. Work at the site commenced in June, 1974. This refinery, which will be Texaco Canada's largest, is scheduled for completion in mid-1977. The most modern technical improvements have been incorporated into its design as well as the best practicable technology for safeguarding the environment.

Another major undertaking was the issuance of unsecured 10¾% Debentures, 1974 Series, in the principal amount of $100 million, maturing in 1994. Net proceeds will be used for capital expenditures, including those incurred in the construction of the new refinery at Nanticoke, and for working capital requirements.

JOHN I. MINGAY D. FRASER BENTLEY

The quarterly dividend paid on the common shares was increased to 39 cents from 33 cents in the third quarter of 1974. Total payments for the year were $1.44 per share, compared with $1.26 per share in 1973.

The company's current income taxes, federal sales tax, municipal and other taxes and provincial and federal royalties in 1974 amounted to $106.0 million, equal to $10.91 a share, compared with $89.6 million, or $9.22 a share in 1973, an increase of 18%. In addition, $204.7 million in direct taxes on petroleum product sales were collected for provincial governments during 1974. The total of all taxes and royalties was $310.7 million – more than 5½ times the company's net income in 1974.

The prices for Canadian crude oil have not been permitted to rise as rapidly as foreign crude oil prices. On September 4, 1973, on the basis of voluntary agreements by the producers with the Canadian government, wellhead prices for crude oil were frozen at the then prevailing levels, resulting in an average price of about $3.80 per barrel until April 1, 1974, when an increase to $6.50 became effective following a federal-provincial agreement in March of that year.

At the request of the federal government, corresponding price ceilings have been maintained voluntarily by marketers of petroleum products, subject to some adjustments for higher costs of crude oil, for some increased operating costs, and for federal sales tax. However, these ceiling product prices have not been realized fully in the marketplace due to competitive pressures.

The Government of Canada has collected a tax on crude oil exports equivalent to a differential calculated by the government from time to time to represent the difference between the international price for crude oil and the current average Canadian wellhead price. Out of the proceeds of this tax, payments have been made to eastern Canadian importers for certain price elements involved in the higher cost of offshore crude oil and petroleum products to compensate them for maintaining product prices within the voluntary price freeze levels.

The Canadian petroleum industry, faced with uncertainties regarding many aspects of its operations, experienced in 1974 a year of irregular growth patterns.

After 15 years of uninterrupted growth, industry production of crude oil and natural gas liquids in Canada declined by about 4½% to a level of approximately 2 million barrels a day. This decline was brought about primarily by governmental action which resulted in a substantial reduction

in deliveries to the United States. Exports of Canadian crude oil declined to approximately 900 thousand barrels per day in 1974 from 1.1 million barrels a day in 1973.

Domestic demand for petroleum products, on the other hand, averaged approximately 1.8 million barrels a day, an increase of some 2% over 1973.

Natural gas sales by the industry in 1974 are estimated at 6.3 billion cubic feet per day, approximately the same as 1973. Domestic sales increased nearly 10% to more than offset a decline of about 6% in exports.

Production of crude oil and natural gas liquids is expected to average about 1.9 million barrels a day in 1975, a decrease of about 5% from the level of 2.0 million barrels a day in 1974. Domestic refiners' demand for Canadian crude oil is forecast to increase slightly to a level of about 1.2 million barrels daily while exports, under present government policy, will continue to decline.

Sales of natural gas are expected to increase by about 1% to a daily average of about 6.4 billion cubic feet.

Domestic demand for petroleum products is expected to rise by about 4½% to about 1.9 million barrels a day in 1975.

To retain Canada's present self-sufficiency in petroleum, Texaco Canada and others in the oil industry have been asserting repeatedly for several years that long lead times and staggering amounts of risk capital are needed to find, develop and deliver new oil and natural gas supplies from frontier and offshore regions and to extract synthetic oil from the tar sands and other non-conventional sources. The oil and gas industry has needed, and continues to need, consistent and encouraging governmental policies, in the form of realistic taxation and royalty payments, and the assurance that the market will be governed by competitive forces. These conditions are essential for the industry to plan ahead and to make the required enormous commitments, not only for exploration and production but also for downstream facilities.

With Canada's future energy supplies at stake, it is unfortunate that – at the very time when investment incentives and long-term commitments by the petroleum industry are most needed – the federal government and the producing provinces should engage in confrontation over tax revenues and royalties from the resource industries. They have adopted measures that have resulted in greatly increased taxes in 1974, which had the effect of double taxation and contributed to the decline in exploration and drilling activity.

Recent actions taken by the federal government and certain provincial governments, however, suggest that there is some recognition that excessive governmental regulation and taxation policies have limited severely the ability of the petroleum industry to perform its vital function of finding and developing new reserves. An example of such action is the Alberta Petroleum Exploration Plan announced in December 1974, which incorporated some tax alleviation. There is an urgent need, however, for further realistic measures to increase economic incentive and investor confidence.

The oil industry in Canada has an outstanding record of accomplishment, the expertise, the facilities, and the desire to continue to serve and protect the Canadian consumer in the most efficient manner possible. But no capital intensive industry – least of all one with such a high risk factor as petroleum – can make large, long range commitments or continue outlays to maximize efficiency and productivity unless it has the assurance of an investment climate that attracts risk capital and ensures the economic viability of the petroleum industry.

Texaco Canada continues to believe that the political and investment climate in Canada will improve and that investment in and by the petroleum industry will be encouraged. The task of meeting Canada's long-term energy requirements is so great and immediate, however, that it will require not only maximum effort by the petroleum industry but also timely co-operation from governments.

Ernest J. Little was elected Secretary of the company, effective September 1, 1974, succeeding John R. C. Boyce who retired after nearly 45 years of conscientious and valued service with the Texaco organization.

We are grateful for the dedication and loyalty of our employees, the continued confidence of our shareholders and the support of our customers.

The pages that follow contain a more detailed description of the activities of Texaco Canada Limited during 1974.

D. Fraser Bentley
Chairman of the Board

John I. Mingay
President and Chief
Executive Officer

Don Mills, Ontario, March 24, 1975

FINANCIAL

Earnings

Consolidated net income of $55.0 million in 1974 was slightly less than the 1973 earnings of $55.4 million. Net income per common share amounted to $5.65 compared with $5.68 in the previous year.

Dividends

Cash dividends paid by the company on its common shares in 1974 amounted to $14.0 million, equivalent to $1.44 per share. This represented an increase of 14.3% over the $12.2 million or $1.26 per share paid in 1973.

Gross Income

Consolidated gross income for 1974 totalled $761.8 million, a rise of 34.3% from the previous year's level of $567.4 million. Gross income from sales and services was $754.0 million compared with $558.2 million in 1973. Income from investments and other sources contributed $7.8 million to gross income compared with $9.2 million in the previous year.

New centralized data entry equipment, incorporating visual display of keyed information, was installed in the computer centre at Don Mills in 1974. The equipment makes possible the conversion of all transactions into machine-readable form.

Costs and Other Deductions

Costs and other deductions, excluding taxes, amounted to $619.0 million, an increase of 45.2% over the 1973 total of $426.2 million.

Taxes

Current income taxes, federal sales tax, municipal and other taxes and provincial and federal royalties amounted to $106.0 million in 1974. This represented an increase of 18.3% compared to $89.6 million in 1973. In addition, the company collected on behalf of provincial governments direct taxes on petroleum products amounting to $204.7 million.

Property, Plant and Equipment Expenditures

Property, plant and equipment expenditures of $53.8 million in 1974 increased by $22.8 million over the previous year. The year-end investment, at cost, in property, plant and equipment was $474.0 million, which represented an increase of 10.7% during the year.

Total Assets

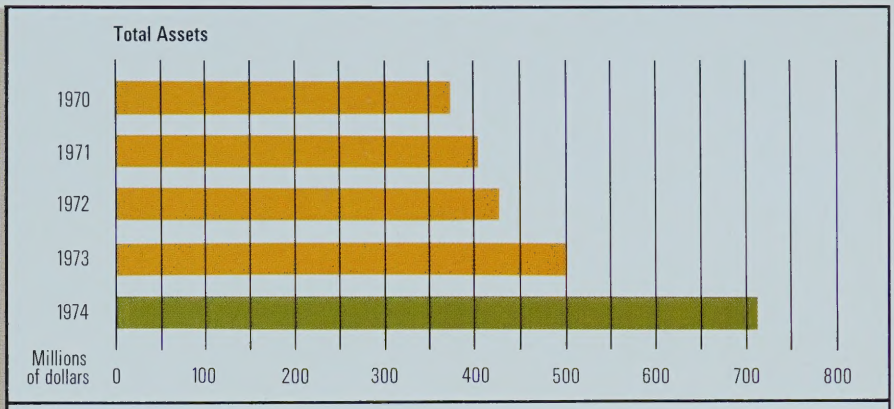
The company's total assets at year-end 1974, including the total amount due from the sale of Debentures, amounted to $711.7 million, an increase of 42.3% from the total of $500.3 million a year earlier.

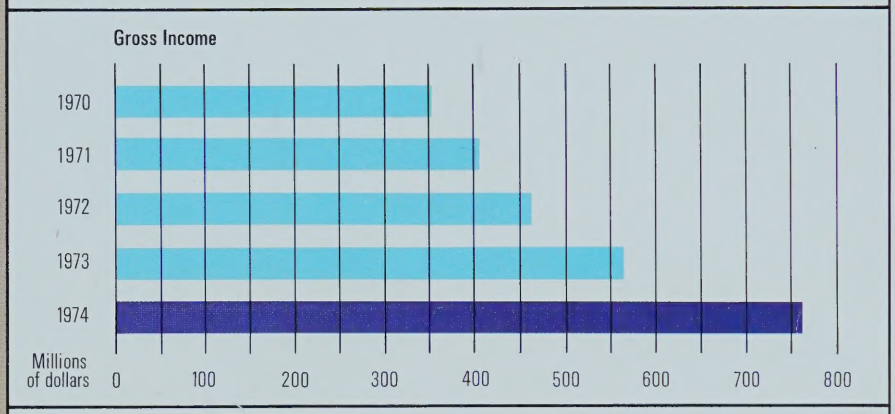
Working Capital

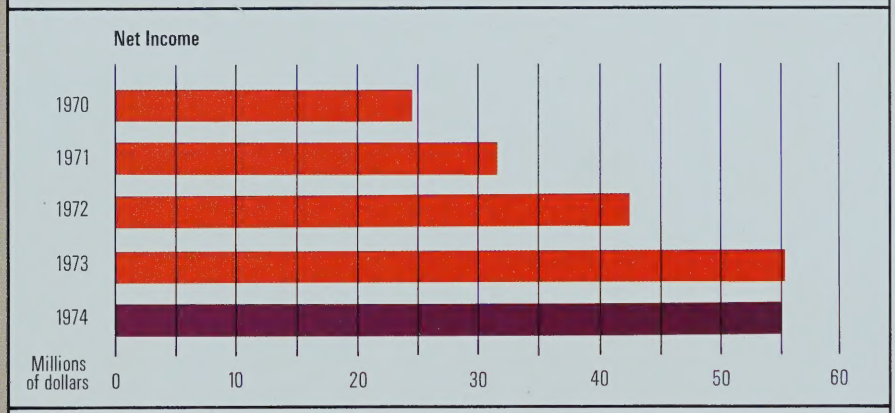
Working capital of $189.1 million included $98.6 million net proceeds due from the sale of Debentures. Exclusive of this amount working capital was $90.5 million, an increase of 11.5% over the $81.2 million at the end of 1973.

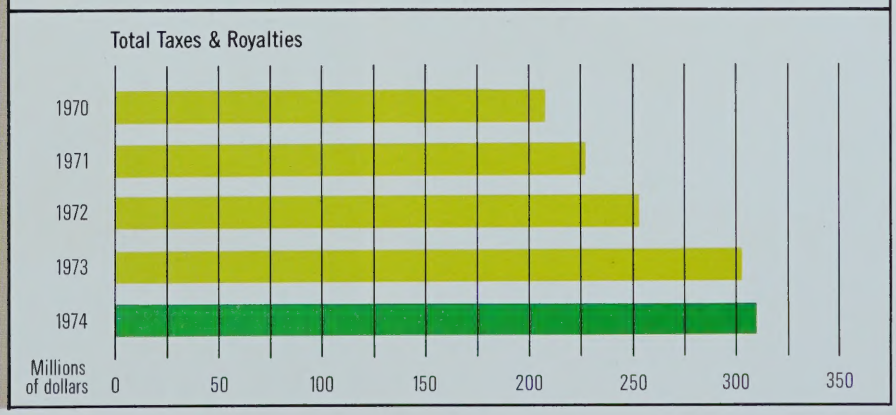
Long-Term Debt

The company's long-term debt amounted at year-end to $107.7 million, including the $100 million 10¾% Debentures, 1974 Series, compared with $10.1 million a year earlier.









REVIEW OF ACTIVITIES

Texaco engineer and drilling crew inspect bit pulled from a depth of more than a mile in exploratory well at Knob Hill, Alberta field.

Geological technician examines rock samples at Texaco wildcat well site in northern Alberta to determine hydrocarbon potential.

EXPLORATION AND PRODUCING

Texaco Canada's gross production of crude oil and natural gas liquids averaged 38,900 barrels a day in 1974 compared with 41,300 barrels a day in 1973. This decline of 5.9% was the first since 1957 and paralleled the decrease in the industry's overall Canadian production in 1974. Net production was 27,500 barrels a day compared with 35,800 barrels a day in 1973. This decrease of 23.1% was mainly a result of sharply increased government royalties.

In 1974, the company acquired 256,000 acres of petroleum and natural gas rights. In Alberta, the principal acquisitions during the year included petroleum and natural gas reservations at Mikkwa River, drilling reservations at Clear Hills, Christina Lake, Muskwa River and Lymburn, leases at Open Creek, and farm-ins at Swartz Lake and Mahaska. At the same time, the company surrendered 1,084,000 acres which it no longer considered prospective.

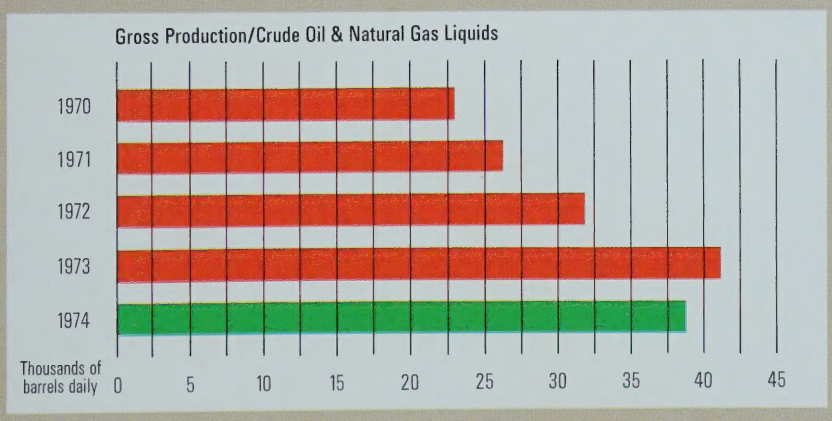
The company also acquired 83,000 acres of coal leases in central Alberta and applications are pending for additional acreage.

Net land holdings at year-end totalled 3,511,000 acres compared with 4,256,000 net acres at the close of 1973.

Texaco Canada participated in the drilling and completion of 26 wells in 1974. This resulted in 8 oil wells, 2 gas wells, 2 water injection wells and 14 dry holes. In addition, 7 wells were completed on lands in which the company holds a royalty interest, resulting in 2 oil wells, 3 gas wells and 2 dry holes.

Additional exploration activities included geological and geophysical surveys in Alberta, British Columbia and off the east coast of Canada.

Capital and exploratory expenditures for producing operations totalled $8.2 million in 1974, compared to $4.9 million in 1973.



REFINING

Refinery runs at the company's four plants averaged 151,800 barrels a day in 1974, an increase of 1.2% over the previous year.

At Montreal plant, work is underway to increase the crude running capacity by mid-1976 to 74,500 from 73,000 barrels a day. Additional storage capacity for heavy fuel oil was provided, and the capacity of the alkylation unit was expanded.

At Port Credit plant the crude running capacity was increased by 2,000 barrels a day to 48,000 barrels a day. Facilities to increase the capacity of the catalytic reforming unit were completed.

At Halifax plant middle distillate storage capacity was increased, and water clarification facilities were installed. Plans for the expansion of the plant's capacity from 17,500 to 20,000 barrels a day were essentially completed in 1974, and purchasing of the necessary equipment was begun.

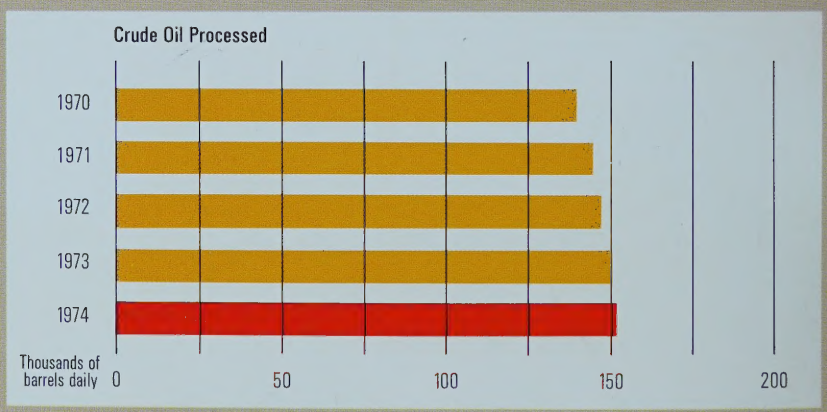
At Edmonton plant crude running capacity was increased by 1,000 barrels per day to 21,000 barrels per day and the engineering design to further increase the capacity of the plant to 24,000 barrels a day was completed.

The contract for construction of the 95,000 barrels a day refinery at Nanticoke, Ontario, was awarded early in 1974. Detailed design work is proceeding rapidly, purchase orders for most major equipment have been awarded and work began on site preparation and erection of storage tanks in June. Construction of the main process units will commence in the spring of 1975. The new refinery, which will augment the company's plant at Port Credit, Ontario, is expected to be completed in mid-1977.

To meet initial new market requirements, facilities for the blending, storage and shipping of lead-free gasoline were installed at the company's refineries.

Environmental protection measures continued to be emphasized at all plants. Among the new installations in 1974 were vapor conservation roofs in gasoline storage tanks at Edmonton and Port Credit.

New federal government controls on the quality of effluent water from oil refineries necessitated engineering studies for modifications to waste water treatment facilities at all plants.



Fluid catalytic unit reactor and regenerator at Edmonton refinery.

During early stages of Nanticoke refinery construction last summer, welders are seen fabricating sumps for installation in large storage tanks.

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MARKETING

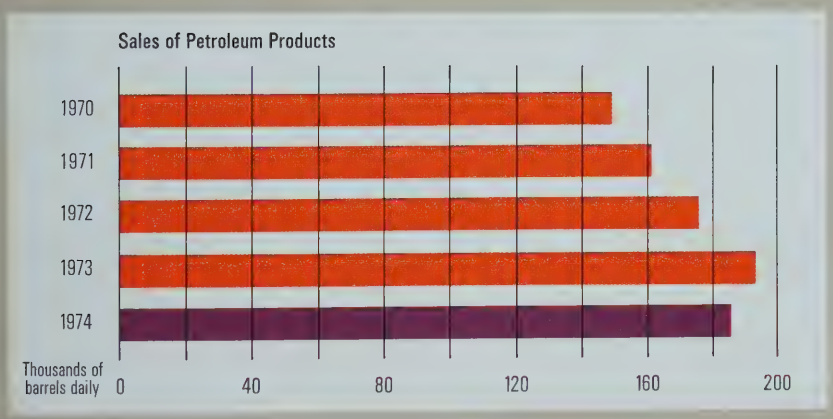
The company's sales of petroleum products averaged 185,700 barrels per day in 1974, a slight decline from the average of 193,300 barrels a day in the previous year.

During 1974, Texaco Canada introduced self-serve programs and lead-free gasoline at many existing retail locations while continuing to develop attractive new outlets in strategically located market areas. The company's program for distribution of lead-free Texaco gasoline concentrated on making this product available on major highways, in large population centres and in popular tourist areas.

A number of new service stations were completed and many older stations were remodelled and upgraded. To improve customer service and increase gasoline volume, car wash equipment was installed at 45 existing locations. Company representation on major highways was upgraded and supplemented where improved representation was required.

The company undertook a major Travel Card re-issue program featuring a new design that is now standardized throughout Canada and the United States.

Bulk station and sales terminal facilities were upgraded and expanded to improve operating efficiencies and increase environmental protection. In 1974 a program was started to automate invoicing and accounts receivable at the company's larger terminals and bulk stations.



In Quebec City, Texaco tourist guides cruised on motorbikes during summer, assisting visitors and earning goodwill for the company. The Quebec Board of Trade's Hospitalité Québec program and Texaco co-operated in the project.

Programs to extend the direct company-to-customer marketing of heating oils were continued during 1974.

The combination of self service with car wash facilities proved highly successful at this new retail outlet in Saskatoon, Saskatchewan. Self service stations being built elsewhere in Canada will be of similar design.

TRANSPORTATION

The Texaco Chief and the company's other tanker, Texaco Brave, carried 4¼ million barrels in 1974, a year in which the company moved a record volume of crude and products.

Texaco Canada transported a record volume of crude oil and refined products during 1974, including substantial amounts of western Canadian crude oil moved by chartered vessels from Vancouver and Toronto to the Halifax refinery and to Portland, Maine, for pipeline shipments to the Montreal refinery.

The company's two tankers, Texaco Chief and Texaco Brave, were fully employed on the Great Lakes and in eastern Canada, carrying 4.2 million barrels during the 1974 operating season. Additional quantities were moved by chartered vessels.

Negotiations were completed for the purchase of a tanker to replace the Texaco Brave which was retired at the end of 1974. The newly-acquired vessel, which will be named the Texaco Warrior and will have a capacity of 42,000 barrels, will go into service in the spring of 1975.

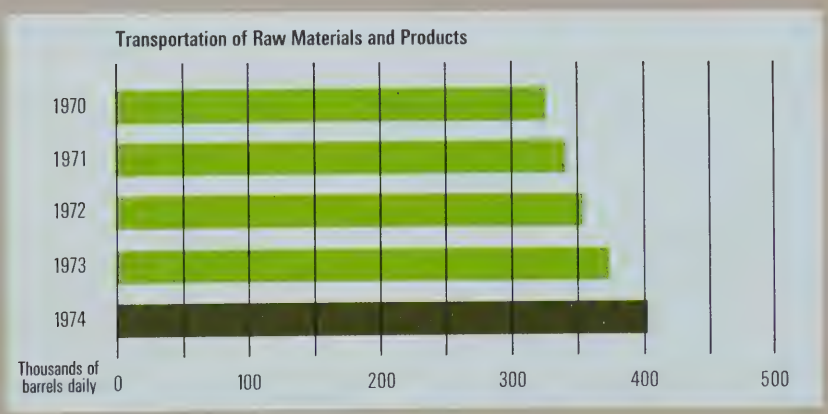
In the company's leased tank car fleet, the program to utilize mainly jumbo tank cars continued with resultant savings in freight costs.

Alberta Products Pipe Line Limited, in which Texaco Canada has a 20% interest, undertook a major expansion of its facilities to increase capacity to 62,000 from 36,800 barrels a day. This line moves refined products from Edmonton to Calgary.

The Federated Pipe Lines system moved an average of 316,500 barrels per day of crude oil from the Swan Hills area of Alberta to Edmonton. The company has a one-half interest in this line.

Trans-Northern Pipe Line, one-third owned, operated at near capacity, moving finished products from Montreal and Toronto refineries to intermediate points.

The Portland-Montreal Pipe Line, 16% owned, with a capacity of 550,000 barrels daily, carried imported and Canadian crude oil to refineries at Montreal from the port at Portland, Maine.



EMPLOYEE RELATIONS

Employees of Texaco Canada and subsidiaries numbered 3,846 at year-end, compared with 3,705 at the close of 1973. Payroll and employee benefit costs were $56.2 million in 1974, compared with $48.2 million a year earlier.

Texaco interviewers visited 50 universities and technological institutes under the graduate recruitment program. The company also conducted an aggressive recruiting campaign for experienced engineers and technologists in the United Kingdom.

The many employee relations programs and activities in the fields of labour relations, compensations, employee benefits, manpower planning and development, and accident prevention and loss control were continued.

Improvements were made in the Pension, Group Life Insurance, Employees Savings and Group Health plans. Management Development courses were continued for designated employees, and tuition reimbursements were provided to 123 employees under the company's Educational Assistance Plan. A further 20 scholarships to sons and daughters of employees were awarded under the Merit Scholarship Program.

A new project, "Protect Your Environment", was introduced across Canada, and safety practices and control received continuing emphasis.

Sixty-one employees received the 25-year service award in 1974. There were 496 active personnel with 25 or more years of company service at year-end. Forty-nine employees retired in 1974, bringing to 468 the number of former employees on pension at the year-end.

PUBLIC RELATIONS

The activities of the oil industry attracted greater public interest during 1974, and there was a sharp increase in the volume and variety of the company's communications.

Wide distribution was given to Texaco Canada's views on such matters as taxation, the effects of increasing government interference with the economic functions of the marketplace, and the need for clear public policies to encourage development of long-term supplies of oil and gas.

The views of Texaco Canada were outlined principally in statements by company officers, in releases to the news media, through company publications, and in corporate advertisements. The company ran a series of three full-page advertisements in daily and financial newspapers across Canada, with the object of helping to correct some of the misunderstandings about the petroleum industry and explaining the important role of the oil industry, including Texaco Canada Limited, in the Canadian economy.

Shareholders, retailers, employees and others with direct interest in the company were also kept informed during the year through publications and releases to the media.

A comprehensive public and community relations program was undertaken in the Nanticoke area where the company's new refinery is under construction.

Texaco Canada actively participated in organizations working for the protection of the environment.

Through a selective program of corporate donations, the company continued to provide financial support for a wide variety of institutions and organizations.

Texaco Canada Limited and Subsidiary Companies

CONSOLIDATED STATEMENT OF INCOME

for the years ended December 31, 1974 and 1973

	1974	1973
Gross Income		
Sales and services	$754,018,000	$558,183,000
Income from investments (Note 1)	6,473,000	7,557,000
Other income	1,329,000	1,691,000
	$761,820,000	$567,431,000
Deductions		
Costs and operating expenses	$512,910,000	$330,763,000
Selling, general and administrative expenses (Note 4)	88,154,000	78,762,000
Depreciation, depletion, and amortization (Note 2)	16,752,000	15,548,000
Interest charges	1,225,000	1,134,000
*Taxes, other than income taxes	40,416,000	45,984,000
**Provision for income taxes – current (Note 6)	39,753,000	36,230,000
– deferred (Note 6)	7,561,000	3,643,000
	$706,771,000	$512,064,000
Net Income for the Year	$ 55,049,000	$ 55,367,000
Net income per common share	$5.65	$5.68

*In addition, provincial motor fuel and oil taxes collected from consumers were paid or accrued in the amounts of $204,706,000 during 1974 and $212,613,000 during 1973.

**Provision for income taxes in 1974 reflects an estimated additional amount of $6,652,000 equal to $0.68 per common share in accordance with the federal budget of November 18, 1974. See Note 6 of the Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

for the years ended December 31, 1974 and 1973

	1974	1973
Balance at beginning of year	$272,521,000	$229,545,000
Add –		
Net income for the year	55,049,000	55,367,000
Deduct –		
Dividends declared		
Preferred stock ($4.00 per share in 1974 and 1973)	150,000	150,000
Common stock ($1.44 per share in 1974 and $1.26 per share in 1973)	13,990,000	12,241,000
Balance at end of year	$313,430,000	$272,521,000

See accompanying accounting policies and notes to consolidated financial statements.

Texaco Canada Limited and Subsidiary Companies

CONSOLIDATED BALANCE SHEET

December 31, 1974 and 1973

	1974	1973
Assets		
Current Assets		
Cash	$ 3,818,000	$ 11,198,000
Marketable securities – at cost	5,000,000	26,069,000
Due from underwriters (Note 3)	98,600,000	—
Accounts receivable	155,993,000	105,207,000
Inventories		
Crude and refined oil products and merchandise	119,965,000	68,243,000
Materials and supplies	1,941,000	1,455,000
Total current assets	$385,317,000	$212,172,000
Investments and Advances (Note 1)	$ 33,590,000	$ 31,378,000
Property, Plant and Equipment, at cost		
Producing	$ 90,404,000	$ 84,403,000
Manufacturing	171,376,000	149,786,000
Marketing	204,978,000	188,007,000
Other	7,281,000	5,922,000
	$474,039,000	$428,118,000
Less: Accumulated depreciation, depletion, and amortization (Note 2)	186,724,000	176,263,000
Net property, plant and equipment	$287,315,000	$251,855,000
Deferred Charges		
Premium paid on subsidiary companies' capital stock, less amortization	$ 2,446,000	$ 2,785,000
Prepaid expenses and other deferred charges	3,025,000	2,100,000
Total deferred charges	$ 5,471,000	$ 4,885,000
	$711,693,000	$500,290,000

See accompanying accounting policies and notes to consolidated financial statements.

Liabilities and Shareholders' Equity

	1974	1973
Current Liabilities		
Notes payable and long-term debt due within one year		
Affiliated company	$ 25,991,000	$ 996,000
Other	1,158,000	2,524,000
Accounts payable and accrued liabilities		
Affiliated companies	76,716,000	47,222,000
Other	56,913,000	43,591,000
Sales, motor fuel and sundry taxes	22,989,000	24,629,000
Income taxes (Note 6)	12,446,000	11,981,000
Dividends payable	38,000	38,000
Total current liabilities	$196,251,000	$130,981,000
Long-Term Debt (Note 3)	$107,733,000	$ 10,070,000
Deferred Income Taxes (Note 6)	$ 57,165,000	$ 49,604,000
Shareholders' Equity		
Preferred Stock		
4% Cumulative redeemable preferred shares of $100 par value (redeemable at Company's option at $102.50 on thirty days' notice)		
Authorized – 77,500 shares		
Issued – 37,500 shares	$ 3,750,000	$ 3,750,000
Common Stock and Retained Earnings		
Common shares of no par value		
Authorized – 14,926,578 shares		
Issued – 9,715,359 shares	$ 33,364,000	$ 33,364,000
Retained earnings	313,430,000	272,521,000
Total common stock and retained earnings	$346,794,000	$305,885,000
	$711,693,000	$500,290,000

Approved on behalf of the Board:
JOHN I. MINGAY, Director
L. J. McGOWAN, Director

Texaco Canada Limited and Subsidiary Companies

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

for the years ended December 31, 1974 and 1973

	1974	1973
Source		
Net income	$ 55,049,000	$ 55,367,000
Depreciation, depletion, and amortization (Note 2)	16,752,000	15,548,000
Provision for income taxes – deferred (Note 6)	7,561,000	3,643,000
Equity in undistributed earnings of non-subsidiary companies (Note 1)	(1,606,000)	(1,655,000)
Provided by operations	$ 77,756,000	$ 72,903,000
Additions to long-term debt (Note 3)	100,000,000	—
Book value of property, plant and equipment sold	2,209,000	1,555,000
	$179,965,000	$ 74,458,000
Disposition		
*Property, plant and equipment expenditures	$ 53,754,000	$ 30,961,000
Reduction in long-term debt (Note 3)	2,337,000	12,425,000
Dividends paid – preferred stock	150,000	150,000
– common stock	13,990,000	12,241,000
Other (net)	1,859,000	146,000
	$ 72,090,000	$ 55,923,000
Added to Working Capital	$107,875,000	$ 18,535,000
Working Capital		
At beginning of year	81,191,000	62,656,000
At end of year	$189,066,000	$ 81,191,000
*Property, plant and equipment expenditures		
Producing	$ 8,226,000	$ 4,922,000
Manufacturing	21,828,000	8,567,000
Marketing	22,956,000	17,256,000
Other	744,000	216,000
	$ 53,754,000	$ 30,961,000

See accompanying accounting policies and notes to consolidated financial statements.

ACCOUNTING POLICIES

Principles of Consolidation

The accounts of Texaco Canada Limited and subsidiary companies are included in the consolidated financial statements. Intercompany accounts and transactions are eliminated.

United States dollar balances included in current liabilities have been translated to Canadian dollars at the rate of exchange at the end of each year. Long-term debt payable in United States dollars has been translated at rates of exchange in effect when the notes were issued.

Inventories

Inventories of crude and refined oil products and merchandise are valued at cost, determined on the first-in, first-out method, which in the aggregate was lower than market. Materials and supplies are valued at cost.

Investments and Advances

The Company uses the equity method of accounting for its investments in companies owned 50%, and for all significant corporate joint ventures owned less than 50%. Under this method, the Company's equity in earnings or losses of these companies is reflected currently in income rather than when realized through dividends. Investments in companies accounted for by this method reflect the Company's equity in the underlying net assets of the companies.

Investments in other non-subsidiary companies are reported at cost, and the Company's interest in the net earnings of these companies is reflected in net income when realized through dividends.

Depreciation, Depletion, and Amortization

Depreciation, depletion, and amortization of property, plant and equipment related to exploration and producing activities are determined on the unit-of-production basis by applying the ratio of produced oil and gas to estimated recoverable oil and gas reserves. With respect to exploration activities, the Company capitalizes lease acquisition costs and costs related to the exploration for, and development of, oil and gas reserves. As a result, finding and development costs are allocated to the periods in which revenue is recognized as the oil and gas reserves are produced and sold. For operations other than exploration and producing, depreciation is provided generally on the group plan with depreciation rates based upon estimated useful life applied to the cost of each class of property.

Deferred Income Taxes

Provision is made in the Companies' accounts to reflect the income tax effect applicable to transactions recorded in the Companies' financial statements in a reporting period different from the period in which they are reported for income tax purposes.

The deferred income taxes shown in the balance sheet represent the cumulative effect of net charges made against earnings to defer these income tax effects to appropriate future periods in the Companies' financial statements. This accounting policy allocates the income tax effect of transactions to the period in which such transactions are recorded for financial reporting purposes.

Pension Plan

The Company's group pension plan is available to substantially all employees. The cost of pension benefits is amortized over the estimated service of the employees involved. As at December 31, 1974, costs which will be incurred in future years in respect of prior service amounted to approximately $9,600,000 on a present value basis. These costs are being funded by annual payments of $953,400 up to and including 1989.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Investments and Advances

	1974	1973
Non-subsidiary companies accounted for:		
On equity basis	$ 14,472,000	$ 12,866,000
At cost	1,896,000	1,963,000
	$ 16,368,000	$ 14,829,000
Miscellaneous investments (at cost)		
Notes, mortgages and other long-term receivables	17,222,000	16,549,000
Total investments and advances	$ 33,590,000	$ 31,378,000

2. Depletion

Depletion charged to income during 1974 totalled $630,000 compared to $683,000 in the previous year. The accumulated depletion in the Companies' accounts at December 31, 1974 was $9,244,000.

3. Long-term Debt

The long-term debt of Texaco Canada Limited and its subsidiaries at December 31, 1974 and 1973 is as follows:

	1974	1973
Texaco Canada Limited		
10¾% debentures, 1974 series, due in 1994	$100,000,000	$ —
Due to affiliated company		
4% Notes, due U.S. $1,000,000 annually to 1982 (1974 U.S. $7,000,000; 1973 U.S. $8,000,000)	7,543,000	8,621,000
Regent Refining (Canada) Limited		
4¼% Sinking fund debentures, series A, $1,400,000 due in 1975	—	1,400,000
Other long-term obligations	190,000	210,000
	$107,733,000	$ 10,231,000
Less: Held for redemption for sinking fund requirements	—	161,000
	$107,733,000	$ 10,070,000

4. Expenses

Selling, general and administrative expenses for 1974 include amortization of $339,000 premium paid on subsidiary companies' capital stock as compared to $370,000 in 1973.
Fees and other remuneration paid to directors and officers were as follows:

	1974	1973
Number of directors	14	14
Number of directors who receive fees as directors	11	11
Aggregate of such fees	$ 45,000	$ 41,000
Number of officers	15	15
Aggregate remuneration	$1,027,000	$866,000
Number of officers who are also directors	3	3

5. Commitments and Contingent Liabilities

Construction of a 95,000 barrels per day refinery at Nanticoke, Ontario has begun and is expected to be completed in mid-1977 at an estimated cost of over $400,000,000. At December 31, 1974, $18,637,000 had been expended on this project.

As at December 31, 1974, Texaco Canada Limited and subsidiary companies had non-cancellable leases expiring more than one year from such date covering service stations, office buildings, and other facilities. Minimum amounts payable under such commitments without reduction for related rental income are expected to average approximately $6,800,000 annually for the next five years.

Under certain service station lease agreements, Texaco Canada Limited is contingently liable as guarantor for loans by third parties to the lessors which total $27,265,000 as at December 31, 1974. Annual payments are due by the lessors from 1975 through 1979 of $2,714,000, $14,771,000, $1,329,000, $1,393,000 and $2,409,000, respectively. The Company has an option to purchase these service stations for the outstanding amount of the contingent liability.

Under long-term agreements with pipeline companies in which stock interests are held, the Company guarantees specified revenue from crude and refined products shipped and in the event such companies are unable to meet debt obligations, Texaco Canada Limited may be required to advance funds against future transportation charges. The contingent liability arising from such agreements, together with certain liabilities on bank loans, discounted notes, etc., amounted to $13,269,000 at December 31, 1974.

No losses are anticipated by reason of the above contingent obligations. In the opinion of the Company's general solicitor, while it is impossible to ascertain the ultimate legal and financial liability with respect to other contingent liabilities, including lawsuits, income taxes, claims, guarantees, etc., the aggregate amount of such liability is not materially important in relationship to the total consolidated assets of the Company and its subsidiaries.

6. Income Taxes

Provision for income taxes in 1974 reflects the increase in federal and provincial income taxes retroactive to May 6, 1974, arising from the federal budget of November 18, 1974, as modified by subsequent tax proposals of certain provinces.

AUDITORS' REPORT

To the Shareholders,
Texaco Canada Limited:

We have examined the consolidated balance sheet of Texaco Canada Limited (a Canada Corporation) and subsidiary companies as of December 31, 1974, and the related consolidated statements of income, retained earnings, and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have previously examined and reported on the consolidated financial statements for the preceding year.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of Texaco Canada Limited and subsidiary companies as of December 31, 1974, and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Arthur Andersen & Co.,
Chartered Accountants

Toronto, Ontario
February 4, 1975.

Texaco Canada Limited and Subsidiary Companies

TEN YEAR REVIEW

Financial Summary

Year	Gross Income	Net Income (1) Total	Net Income (1) Per Common Share	Net Income (1) Per Dollar of Gross Income	Dividends Paid Common Total Cash	Dividends Paid Common Per Share	Dividends Paid Preferred Total Cash	Dividends Paid Preferred Per Share	Property, Plant & Equipment Expenditures	Payments to Governments Income, Operating Taxes and Royalties	Payments to Governments Taxes Collected From Consumers	Payments to Governments Total Taxes and Royalties
	Millions	Millions			Millions		Millions		Millions	Millions	Millions	Millions
1974	**$761.8**	**$55.0**	**$5.65**	**7.2¢**	**$14.0**	**$1.44**	**$0.2**	**$4.00**	**$53.8**	**$106.0**	**$204.7**	**$310.7**
1973	567.4	55.4	5.68	9.8	12.2	1.26	.2	4.00	31.0	89.6	212.6	302.2
1972	463.4	42.4	4.35	9.2	11.1	1.14	.2	4.00	30.6	68.1	184.4	252.5
1971	406.3	31.6	3.24	7.8	9.1	.94	.2	4.00	29.0	58.9	170.0	228.9
1970	352.8	24.7	2.53	7.0	8.5	.88	.2	4.00	23.5	52.2	159.1	211.3
1969	331.2	23.3	2.39	7.0	8.0	.82	.2	4.00	26.3	45.6	152.3	197.9
1968	310.5	21.0	2.14	6.8	7.2	.74	.2	4.00	23.4	44.3	137.6	181.9
1967	284.5	17.4	1.78	6.1	6.1	.63	.2	4.00	22.6	35.5	112.0	147.5
1966	258.2	15.3	1.56	5.9	5.8	.60	.2	4.00	17.0	30.4	100.8	131.2
1965	238.5	13.6	1.38	5.7	5.2	.53	.2	4.00	20.4	22.2	92.3	114.5

Financial Condition at Year End

Year	Current Assets	Current Liabilities	Working Capital	Current Ratio	Total Assets	Long-Term Debt	Common Shareholders' Equity Net Book Value	Common Shareholders' Equity Per Share at Year End
	Millions	Millions	Millions		Millions	Millions	Millions	
1974	**$385.3**	**$196.2**	**$189.1**	**1.96**	**$711.7**	**$107.7**	**$346.8**	**$35.70**
1973	212.2	131.0	81.2	1.62	500.3	10.1	305.9	31.48
1972	154.4	91.7	62.7	1.68	426.8	22.5	262.9	27.06
1971	144.7	90.3	54.4	1.60	401.7	32.0	231.7	23.85
1970	134.1	82.8	51.3	1.62	373.4	37.5	207.3	21.33
1969	125.0	73.7	51.3	1.70	349.4	40.5	191.2	19.68
1968	122.5	86.9	35.6	1.41	334.4	30.0	176.2	18.14
1967	105.2	68.2	37.0	1.54	305.6	34.5	162.8	16.75
1966	102.5	61.6	40.9	1.66	292.1	42.4	151.9	15.63
1965	97.9	59.3	38.6	1.65	279.6	45.0	142.5	14.67

Operations Summary

Year	Production of Crude Oil and Natural Gas Liquids (in thousands of barrels daily) Gross	Production of Crude Oil and Natural Gas Liquids (in thousands of barrels daily) Net	Refinery Runs	Refinery Crude Oil Capacity	Petroleum Product Sales	Shares Common	Shares Preferred	Shareholders Number at Year End Common	Shareholders Number at Year End Preferred	Employees Number at Year End	Employees Payrolls and Benefits
						Thousands	Thousands				Millions
1974	**38.9**	**27.5**	**151.8**	**160.0**	**185.7**	**9,715**	**38**	**5,197**	**596**	**3,846**	**$56.2**
1973	41.3	35.8	149.9	156.5	193.3	9,715	38	5,173	627	3,705	48.2
1972	32.0	27.9	146.9	144.0	176.4	9,715	38	5,318	679	3,705	44.7
1971	26.4	22.9	144.6	142.0	161.3	9,715	38	5,400	715	3,608	40.5
1970	23.6	20.6	139.5	142.0	149.3	9,715	38	5,732	752	3,531	36.6
1969	21.4	18.6	134.8	129.5	141.7	9,715	38	5,898	783	3,481	33.2
1968	19.0	16.5	132.6	127.5	134.2	9,715	38	5,349	828	3,441	30.1
1967	16.5	14.4	125.4	125.5	125.9	9,715	38	5,478	859	3,424	27.7
1966	14.1	12.4	113.5	124.5	115.3	9,715	38	4,581	912	3,347	25.1
1965	12.5	10.9	107.0	122.5	106.4	9,715	38	4,719	934	3,239	22.3

(1) Year 1969 includes extraordinary item of $1,765,000 or $0.18 per common share representing gain on sale of an office building and land.

TEXACO PRODUCTS

Texaco Canada markets a wide range of top quality products under one brand name in all ten provinces. These include:

AUTOMOTIVE
SKY CHIEF Gasoline
FIRE CHIEF Gasoline
Lead-free Texaco Gasoline
HAVOLINE Super Premium motor oil
TEXACO Motor Oil
TEXACO Anti-Freeze Coolant
MARFAK lubricants
TEXAMATIC transmission lubricants
MULTIGEAR lubricants

AVIATION
AVJET jet fuels
SATO synthetic turbine oils
Aviation gasolines
Aircraft engine oils
Aircraft hydraulic oils
Aircraft greases

MARINE
Outboard motor oil
Marine bunker fuels
Marine lubricants

FUEL OILS
DIESEL CHIEF
CRYSTALITE kerosene
Home heating fuels
Industrial fuels

INDUSTRIAL
Construction and mining equipment lubricants
Farm lubricants
Forest and paper industry lubricants
Gas engine lubricants
REGAL turbine oil
RANDO hydraulic oil
Metalworking lubricants and coolants
Process Oils
Railway lubricants
Steel mill lubricants
Textile mill lubricants

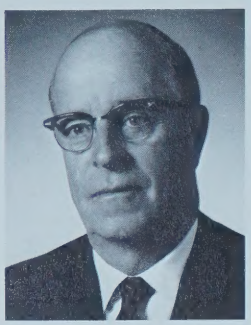
PETROCHEMICALS
Benzene
Toluene
Xylene
Hexane
Feedstocks for chemical plants
Specialized solvents, such as:
SOLVEX
AROTEX
PARATEX

QUALITY LINE SPECIALTIES

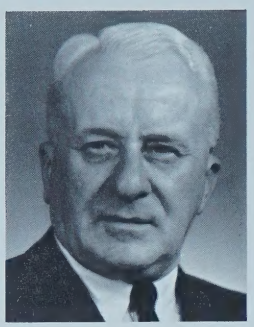
OTHER
Liquefied petroleum gases
Rust proof compounds

Employee wearing newly-styled ladies' uniform displays a selection of Texaco products, including automotive, marine, petrochemical and specialties from The Quality Line.

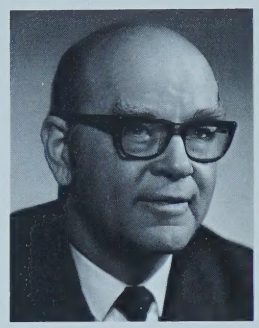
DIRECTORS OF TEXACO CANADA LIMITED



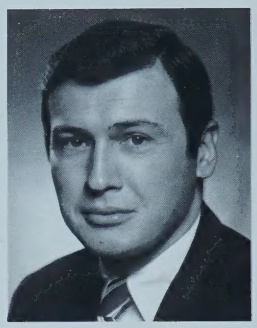
*D. F. Bentley,
Chairman of the Board
Texaco Canada Limited,
Toronto



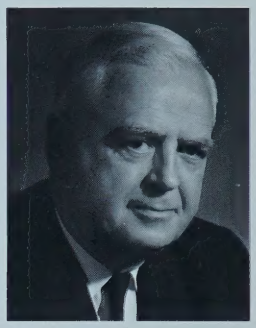
*Roland Bock,
President,
Bock & Tétreau Limitée,
Montreal



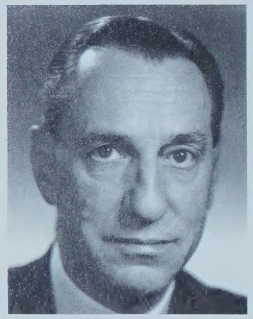
Stanley D. Clarke,
President,
Clarke Transportation
Canada Ltd.,
Montreal



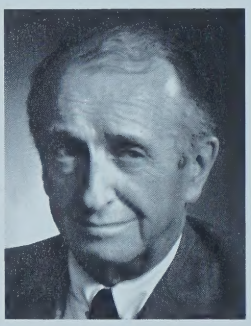
Alfred C. DeCrane, Jr.,
Vice-President
Producing, Eastern Hemisphere,
Texaco Inc.,
New York



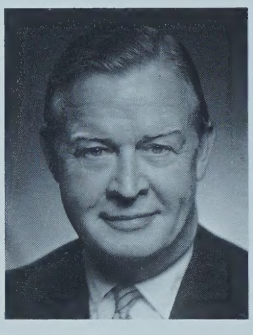
A. G. Farquharson,
Retired, Formerly President
and Chief Executive Officer,
Texaco Canada Limited,
Bainsville, Ontario



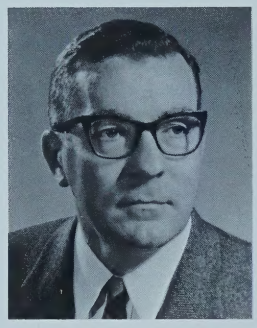
H. J. Lang,
Chairman and Chief
Executive Officer,
Canron Limited,
Montreal



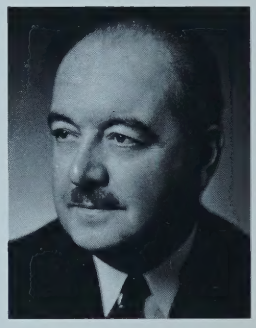
*L. J. McGowan,
Consultant,
Taylor Woodrow Group,
(London, U.K.),
Toronto



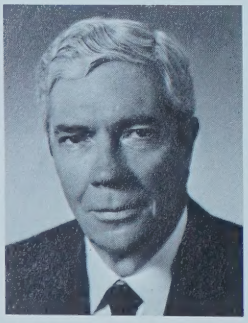
*John I. Mingay,
President and Chief
Executive Officer,
Texaco Canada Limited,
Toronto



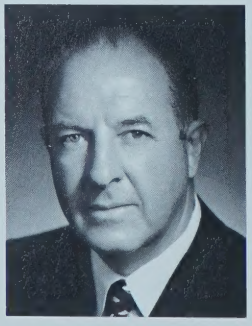
Paul Murdock,
President,
Murdock Lumber Inc.,
Chicoutimi, Quebec



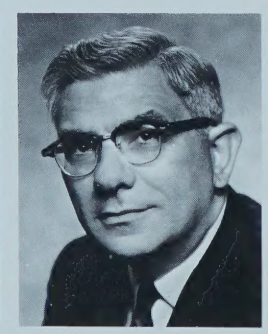
The Hon. Victor deB. Oland,
Chairman,
Lindwood Holdings Limited,
Halifax



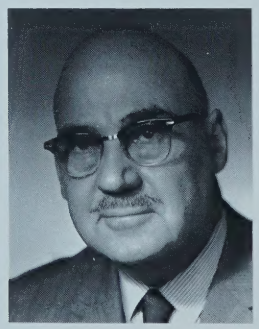
R. W. Sparks,
Vice-President,
(Western Canada),
Texaco Canada Limited,
Calgary



D. G. Willmot,
Chairman of the Board,
The Molson Companies Limited,
Toronto



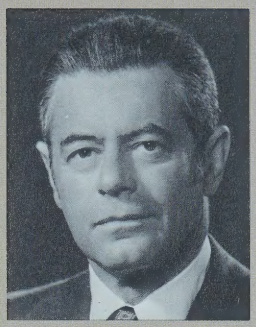
*Peter E. Wissel,
Vice-President,
Finance and Economics,
Texaco Inc.,
New York



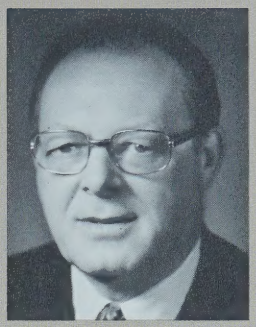
*Edward C. Wood,
President,
Edwood Ltd.,
Montreal

*Member of the Executive Committee

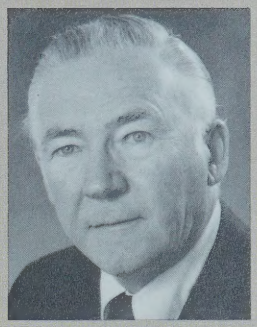
OTHER OFFICERS



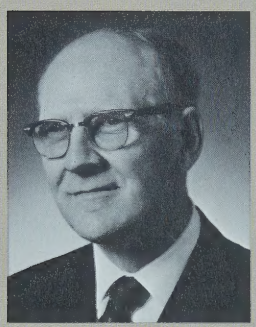
O. C. Cleyn,
Vice-President,
Eastern Canada



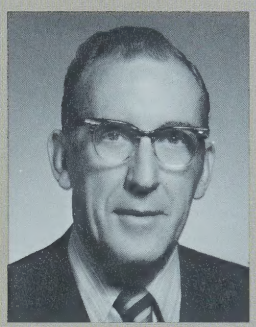
H. T. Hudson,
Vice-President
and Treasurer



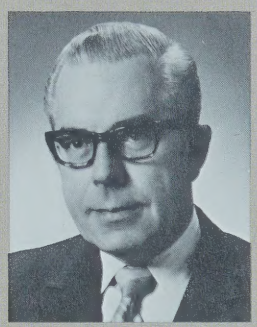
J. E. King,
Vice-President,
Public Affairs



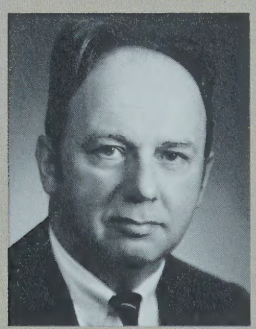
J. G. Light,
Vice-President,
Refining



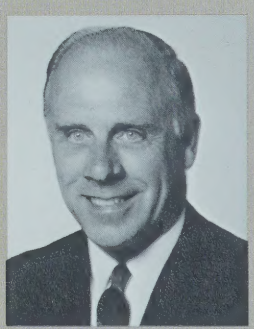
J. L. Morrison,
Vice-President
and Assistant to the President



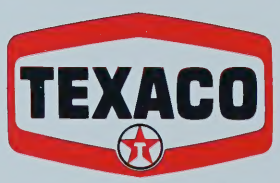
J. C. Wattie,
Vice-President
and General Manager, Sales



E. J. Little,
Secretary



D. L. West,
Comptroller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